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AZ CORP COMMISSION
DOCKET CONTROL

January 31, 2011

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Arizona Corporation Commission

DOCKETED

JAN 31 2011

DOCKETED BY

RE: Arizona Public Service Company Report on Carbon Tracking Mechanism
Docket No. E-01345A-08-0172

Pursuant to Decision No. 71448:

Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.

Enclosed, please find Arizona Public Service Company's report on the carbon tracking mechanism.

If you have any questions regarding this information, please contact Erinn Andreasen at (602) 250-3276.

Sincerely,

Susan Casady

SC/kc

cc: Brian Bozzo

Arizona Public Service Company Carbon Reduction Report

In Arizona Corporation Commission ("Commission") Decision No. 71448,¹ the Commission directed Arizona Public Service Company ("APS") to establish a carbon credit tracking mechanism:

It is further ordered that Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.²

Background

While it appeared likely at the time of the Decision³ that some form of federal carbon legislation (see discussion below), particularly a cap and trade type program, would be passed, the required political support for carbon legislation largely disappeared, and the previously proposed federal carbon legislation expired with the new Congress.

In light of the possibility that a national carbon pricing policy could be approved in the near future - either through a federal cap and trade or carbon tax program - we believe that the company should be closely tracking and setting aside for the benefit of future ratepayers all credits it is accruing associated with ratepayer-financed non-carbon generation.⁴

Current federal legislative activity for establishing a carbon cap and trade program or a carbon tax has come to a stand-still, and the passage of federal legislation establishing carbon cap and trade or carbon tax programs looks unlikely over the next several years. In addition, current U.S. Environmental Protection Agency climate change regulatory efforts do not propose cap and trade type programs that would establish a national carbon credit program.⁵

¹ Docket No. E-01345A-08-0172.

² Dec. No. 71448, p. 61 at 26.

³ December 30, 2009.

⁴ Dec. No. 71448, p. 58 at 28.

⁵ Mandatory Greenhouse Gas Reporting, 40 C.F.R. § 98.

Carbon Reduction - Energy Efficiency and Renewables

With the lack of a legislative program or national carbon pricing policy, there are no mechanisms for establishing carbon credits and therefore, establishing a tracking mechanism is premature at this time because a carbon value and market has not been established.

In lieu of a carbon credit tracking mechanism, APS will for now track annual carbon dioxide emissions reductions and avoidances resulting from our renewable energy and energy efficiency projects. This will help APS in our ongoing efforts to evaluate and prepare for any future legislative proposals for a national carbon program. If a national program is established that includes carbon credits, APS will then develop a carbon credit tracking mechanism for our renewable energy and energy efficiency programs consistent with that legislation.

For informational purposes, APS has prepared the attached table that shows the carbon dioxide emission reduction or avoidance tracking mechanism for our 2010 energy efficiency and renewable energy programs.

Arizona Public Service Company
Carbon Dioxide (CO2) Reductions/Avoidance from Energy
Efficiency and Renewable Generation Programs

APS PROGRAM	2010 MWHs	2010 Metric Tons CO2 Reduction ²
ENERGY EFFICIENCY¹		
Consumer Products	128,200	52,277
Existing Homes	10,400	4,241
New Construction	9,800	3,996
Appliance Recycling	10,100	4,119
Low Income	1,500	612
Large Existing Facilities	89,500	36,496
New Construction	39,200	15,985
Small Business	11,000	4,486
Schools	18,500	7,543
Energy Information System	1,800	734
TOTAL ANNUAL ENERGY EFFICIENCY	320,000	130,489
RENEWABLE GENERATION³		
Aragonne Mesa Wind	267,551	109,102
High Lonesome Wind	261,996	106,837
CE Turbo Geothermal	14,851	6,056
Glendale Landfill	17,887	7,294
Snowflake White Mountain Power	132,908	54,197
APS PV	8,652	3,527
Saguaro Solar Trough	413	168
TOTAL ANNUAL RENEWABLE GENERATION	704,258	287,182
TOTAL APS CARBON DIOXIDE REDUCTION FROM EE AND RENEWABLE GENERATION		417,671

1. Current values for Energy Efficiency are from projections of Annual megawatt hour ("MWh") savings in the APS 2010 Demand Side Management ("DSM") Implementation Plan. 2010 actual values will be input when calculated for the APS March 1, 2010 DSM Semi-Annual Progress Report.
2. Metric tons of CO2 reduction are calculated based on APS 2010 assumption for natural gas combined cycle generation carbon dioxide emissions of 0.407779 metric tons per MWh. This is consistent with the emission factor used for calculating carbon benefits in APS's 2010 DSM Semi-Annual Progress Reports and Implementation Plan.
3. APS PV and Saguaro Solar are based on forecasted MWh. Other renewable generation numbers are based on 2010 actual MWh generation.